

# REGULATORY ALERT

## NATIONAL CREDIT UNION ADMINISTRATION 1775 Duke Street, Alexandria, VA 22314

**DATE:** October 2015 **NO:** 15-RA-04

**TO:** Federally Insured Credit Unions

**SUBJ:** Regulatory Changes Affecting Military Members

**ENCL:** [Department of Defense Final Rule Amending the Military Lending Act Regulation](#)

Dear Board of Directors and Chief Executive Officer:

The Department of Defense (DOD) recently issued a final rule amending the regulation implementing the Military Lending Act (Final Rule).

I am very pleased to report that the Final Rule resolves the issue I raised in my [comment letter to DOD](#) about unintended consequences of the proposed rule, which would have limited federal credit unions' ability to make payday alternative loans (PALs).

**Under the Final Rule, federal credit unions can continue providing affordable payday alternative loans under NCUA's PAL regulation<sup>1</sup> to military members and their families.**

### **Key Changes**

Specifically, DOD's Final Rule permits federal credit unions making PALs in accordance with NCUA's regulation to exclude one application fee in a rolling 12-month period from the military annual percentage rate (MAPR). DOD's proposed rule would have limited the MAPR on PALs to 36 percent *including the application fee* in addition to the interest rate.

DOD's original regulation applied only to payday loans, vehicle title loans and tax refund anticipation loans. The Final Rule expands the 36 percent MAPR limit to cover most non-mortgage-related consumer credit transactions under the Truth in Lending Act (TILA) and its implementing regulation, Regulation Z. For example, the Final Rule covers credit card accounts and installment loans, as well as PALs.

---

<sup>1</sup> NCUA's PAL regulation is published in the Code of Federal Regulations at 12 CFR § 701.21(c)(7)(iii). It authorizes federal credit unions to offer payday alternative loans of \$200 to \$1,000 for terms of one-to-six months (with no rollovers) and an application fee of up to \$20 to cover processing costs. On loans meeting these conditions, NCUA's PAL regulation permits federal credit unions to charge an annual percentage rate (APR) of up to 28 percent *excluding the application fee*.

The Final Rule also changes how the MAPR is calculated. For most loans (other than the first PAL in a rolling 12-month period), an application fee counts in calculating the MAPR. This is the case even though the application fee would not count in calculating the APR under Regulation Z.

### **Other Changes**

In addition to accommodating most PALs and revising how the MAPR is calculated, the Final Rule:

- Adjusts the safe harbor for determining and documenting who is a covered borrower;
- Amends disclosure requirements and provides model disclosure language;
- Amends provisions prohibiting certain contract terms, including exemptions from certain provisions for credit unions;
- Defines the penalties and civil remedies for violations; and
- Preempts state law in certain circumstances.

### **Effective Dates**

**Although the Final Rule's effective date is October 1, 2015, *credit unions generally have a year from the effective date of the Final Rule to comply with the new provisions for the types of "consumer credit" covered only by the expanded definition under the Final Rule. The compliance date for most new provisions will be October 3, 2016. Compliance with the credit card account rules will begin October 3, 2017.***

Until October 3, 2016, credit unions making payday loans, vehicle title loans, or tax refund anticipation loans must continue to comply with the original regulation.

### **For More Information**

NCUA staff is developing guidance and examination procedures in connection with the Final Rule.

In the meantime, if you have any questions, contact NCUA's Office of Consumer Protection at (703) 518-1140 or [ComplianceMail@ncua.gov](mailto:ComplianceMail@ncua.gov), your regional NCUA office, or your state supervisory authority.

Sincerely,

/s/

Debbie Matz  
Chairman